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TAGS: [ECON](#) [EFIN](#) [EAID](#) [ETRD](#) [KDEM](#) [BBSR](#) [HO](#)

SUBJECT: TFH01: HONDURAS STILL HAS MONEY IN THE BANK

REF: A. TEGUCIGALPA 883

[1](#)B. TEGUCIGALPA 771

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[1](#)1. (SBU) SUMMARY: In the post-coup period, some worried if Honduras had sufficient foreign exchange (FX) reserves to finance trade while maintaining its fixed exchange rate. The two major contributors to Honduran FX reserves are Foreign Direct Investment (FDI) and remittances. Although during the first quarter of 2009, FDI was down 17 percent relative to the same period in 2008, the Balance of Payments cash flow statement shows a different picture. For the week ending September 3, the year-to-date accumulated total was up 0.4% over 2008. For the same period, the Banco Central de Honduras (BCH) reports that remittances are down 13.1%. As of August 27, Honduras had USD 2109.6 million of Net International Reserves (NIR), down 14.2% from December 2008. The BCH estimates that it has sufficient NIRs to cover 3.6 months of imports. The data indicates that the de facto regime will likely have sufficient FX reserves to meet their FX requirements, including financing trade, until mid-January despite maintaining a fixed exchange rate policy. END SUMMARY.

Background

[1](#)2. (U) For several years, the Honduran government has fixed the exchange rate at 18.8951 Lempiras per USD 1. Prior to the June 28 coup, there was already much talk about whether the balance of payments imbalances made the fixed exchange rate regime sustainable. In the post-coup period, some worried that the political crisis would exacerbate the impacts of the global financial crisis and if Honduras had sufficient foreign exchange (FX) reserves to finance trade while maintaining its fixed exchange rate. Although imports are not the only FX outflow, it constitutes by far the largest. The two major sources of Honduran FX are Foreign Direct Investment (FDI) and remittances.

FDI Trends for Honduras

¶3. (U) During the first quarter of 2009, FDI was down 17 percent relative to the same period in 2008. At the end of March 2009, Honduras had received a total of USD 144.9 million in FDI. More recent figures for the overall FDI levels are unavailable as the BCH has not yet published a Balance of Payments report for the second quarter. Data for the post-coup period will be included in the third quarter report.

¶4. (U) The United States is the largest principal investor with almost 60% of total FDI originating from the U.S. Canada is the second largest, contributing about 20%, followed by the United Kingdom and Germany who provided a combined total of about 13%.

¶5. (U) FDI is broken up between the following sectors: maquilas (35.3%), telecommunications (31.8%), manufacturing (12.6%), services (10.3%), and other (10%).

Cash Flows

¶6. (U) FDI, as represented on the Balance of Payments schedule, includes not only cash flows, but also equity securities, reinvested earnings, and other capital. When looking at the cash flow statement, which directly impacts FX levels, a different picture emerges.

¶7. (U) FDI cash flows for 2009 closely resemble 2008. For the week ending September 3, the year-to-date accumulated total was USD 344.6 million, up 0.4% over 2008.

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Remittances

¶8. (U) Remittance inflows from Honduras living abroad are consistently trending lower for 2009 over 2008. For the week ending September 3, the BCH reports that remittances are down USD 240.0 million for the year. This represents a 13.1% decrease.

FX Position

¶9. (U) For the week ending September 3, the BCH reports that it has USD 2,237.7 million of Net International Reserves (NIR). This represents a 9.1% decrease since December 2008. However, this figure includes the August 28 allocation of additional Special Drawing Rights (SDRs) by the IMF (ref A). As of August 27, Honduras had USD 2109.6 million of NIR, down 14.2% from December 2008.

¶10. (U) For the week ending September 3, preliminary data provided to the BCH from exchange agents show that currency trading is down about 16.2%. There are no indications that people are circumventing exchange agents and exchanging money on the black market. According to the BCH, the average differences between the bank controlled and the non-official buy and sell prices are -0.3% and 0.11% respectively.

¶11. (U) Using the formula established by the International Monetary Fund (IMF), the BCH estimates that it has sufficient NIRs to cover 3.6 months of imports. The Executive Secretariat of the Central American Monetary Council (SECMCA) places Honduras in the middle of the Central American pack. Meanwhile, the level of goods imported has also decreased. Therefore the current levels of FX will cover more months of imports than previously.

Comment

¶12. (SBU) Although FDI and remittances are significantly down in 2009, the fact that FDI cash flows have remained stable and are similar to 2008 levels, despite the global economic and the political crises, indicate that the de facto regime will likely have sufficient FX reserves to meet their FX requirements, including financing trade, until mid-January despite maintaining a fixed exchange rate policy.
LLORENS